FDIC State Profile

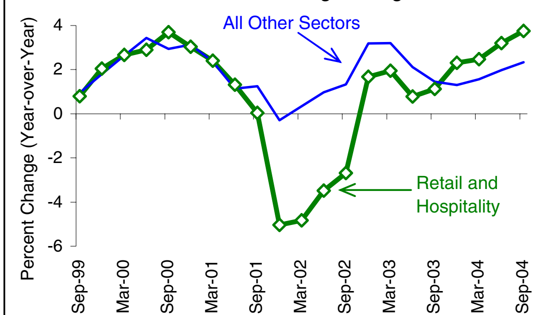
Winter 2004

Hawaii

Hawaii continued to enjoy strong job growth.

- While every major industry in Hawaii posted year-over-year employment gains during the past year, tourist-related sectors benefited the most. The leisure and hospitality sector added 3,700 jobs, and the retail trade sector contributed 2,300 positions, together accounting for 40 percent of the state's overall growth (See Chart 1).
- The health services sector also reported solid job gains, adding 2,000 positions during the year. Hawaii's aging population will likely support this sector prospectively.
- At a recent Hawaii Business Outlook Forum, economists were upbeat about the state's economic future and respondents surveyed by the Bank of Hawaii expressed near record-high business confidence.

Chart 1: Tourism-Related Employment Shows Continued Strengthening

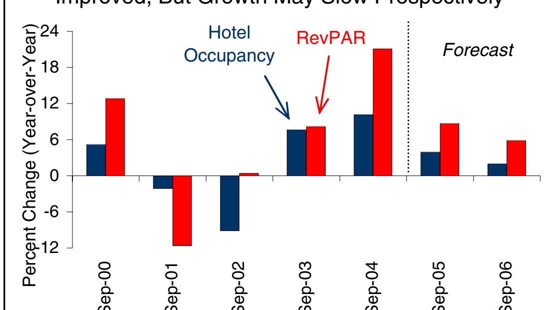


Source: Bureau of Labor Statistics

Commercial real estate (CRE) markets improved.

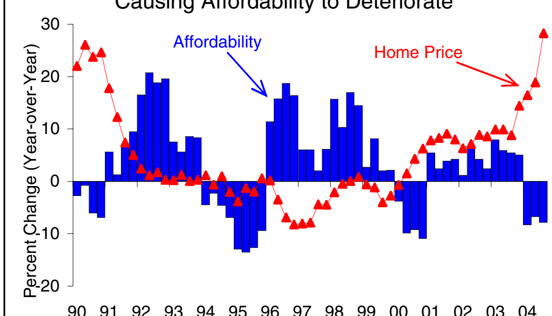
- The hotel sector in the ***Honolulu*** metropolitan area reported higher occupancy rates and revenue per available room (RevPAR) in third quarter 2004 (See Chart 2). Trends reflect increased visitor volume and a slightly lower overall supply of hotel space. Property & Portfolio Research (PPR) expects continued, albeit slower, growth in occupancy and RevPAR measures through at least 2006.
- During the past year, Honolulu's retail vacancy rates declined, but forecast additions to stock could pressure vacancy rates prospectively, according to PPR. Furthermore, the influx of Wal-Mart and several big box stores could negatively affect smaller retailers in the area.
- Improving property fundamentals fostered CRE loan[1] growth among Hawaii-based insured institutions, which reported a median CRE loan-to-Tier 1 capital ratio of 219 percent, nearly double the median ratio reported last year. Recent growth in CRE loans has centered in construction and development (C&D) credits, in response to strengthening demand for both commercial and residential real estate.

Chart 2: Conditions in Honolulu's Hotel Sector Have Improved, But Growth May Slow Prospectively



Note: 2005 and 2006 figures are PPR forecasts. RevPAR is revenue per available room.
Source: Property & Portfolio Research (PPR)

Chart 3: Hawaii Home Prices Surged in 2004, Causing Affordability to Deteriorate



Sources: Office of Federal Housing Enterprise Oversight (OFHEO); Economy.com

[1] CRE loans are defined to include construction and development, multifamily, and nonfarm-nonresidential mortgages.

Hawaii home prices have skyrocketed.

- Hawaii reported annual home price appreciation of 28 percent in third quarter 2004, more than twice the nationwide pace and the second fastest rate of any state. The improved economy, favorable interest rates, and increased purchasing activity by both Hawaii residents and mainland investors have supported price appreciation. However, the resumption of rapid price increases has exacerbated Hawaii's affordability imbalance, despite historically low interest rates (See Chart 3).

- If housing prices or sales activity cool, credit quality among insured institutions could weaken. On a median basis, 1-4 family mortgages and C&D loans represented 243 percent and 34 percent of Tier 1 capital, respectively, as of third quarter 2004. Mortgage delinquency and charge-off ratios were low and declining on a year-over-year basis, but may be subdued because of high refinancing activity. Credit softening could appear as portfolios age.

Bank branching activity has been weak.

- The Hawaiian recession and Asian economic turmoil that extended through much of the 1990s contributed to industry consolidation, bank restructuring programs, and ultimately, 112 banking office closures between 1995 and 2004. However, during the past five years, the rate of office closures has slowed, and the volume of deposits held in remaining offices actually increased, in tandem with the state's improving economy (See Chart 4).

- The state's three largest institutions controlled 77 percent of FDIC-insured deposits, making the market one of the most concentrated in the nation.[2]

- However, credit unions pose formidable competition, garnering 19 percent of total deposits held by banks, thrifts, and credit unions as of June 2004, up from 16 percent in mid-2000 and far higher than the 9 percent held by credit unions nationally.

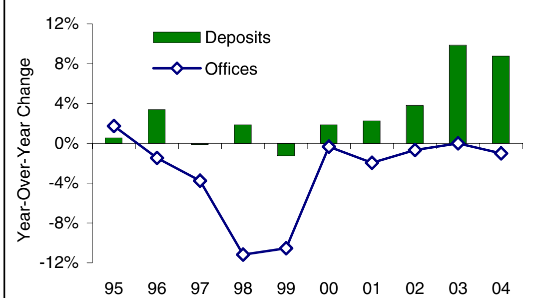
Bank and thrift financial performance remained strong.

- The year-to-date median return on assets reported among insured institutions based in the state was 1.40 percent, down modestly from the same period last year, but far above the 1.05 percent median reported nationwide. Net interest margin trends were mixed, with half of institutions reporting relatively flat-to-improving net interest income-to-average asset ratios. Already low provision expense-to-average asset ratios sank further—five of the state's eight institutions reported zero or negative provision expenses in response to improving credit quality.

- Earnings were muted somewhat by higher overhead-to-average asset ratios which were pushed up by legal and integration expenses at two merging institutions.

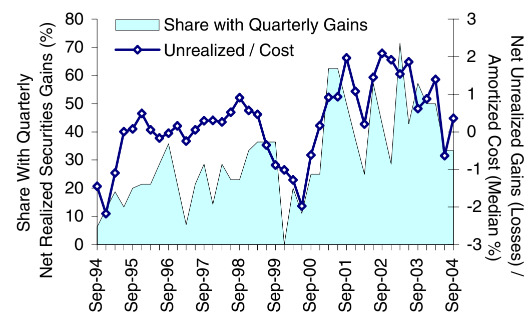
- Most Hawaii-based institutions increased year-to-date earnings through loan or securities sales gains. Further long-term interest rate increases may limit these sales as a potential source of income in the future, as happened during the rising rate environments of 1994 and 1999 (See Chart 5). Interest rate trends bear watching because securities represented 27 percent of assets among Hawaii-based institutions on a median basis.

Chart 4: Insured Institutions Continued to Close Full-Service Banking Offices in Hawaii



Source: FDIC/OTS Summary of Deposits (June of each year)

Chart 5: Third Quarter Drop in Long-Term Rates Boosted Securities Values



Source: FDIC (Call Report filers only)

[2] As measured by the Herfindahl-Hirschman Index (HHI), which does not give weight to deposits held at credit unions. For additional information on the HHI, see the October 20, 2004 FYI, "Branching Continues to Thrive as the U.S. Banking System Consolidates" (http://www.fdic.gov/bank/analytical/fyi/2004/102004fyi.html).

Hawaii at a Glance

General Information	Sep-04	Sep-02	Sep-01	Sep-01	Sep-00
Institutions (#)	8	9	9	10	10
Total Assets (in thousands)	32,928,573	31,404,946	29,886,354	30,056,621	30,469,141
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0

Capital	Sep-04	Sep-02	Sep-01	Sep-01	Sep-00
Tier 1 Leverage (median)	7.45	8.54	8.84	8.92	8.50

Asset Quality	Sep-04	Sep-02	Sep-01	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	0.66%	1.14%	1.48%	1.90%	2.25%
Past-Due and Nonaccrual >= 5%	0	0	1	1	2
ALLL/Total Loans (median %)	1.63%	1.96%	1.94%	1.85%	1.55%
ALLL/Noncurrent Loans (median multiple)	6.35	3.21	1.55	1.63	0.94
Net Loan Losses/Loans (aggregate)	0.11%	0.20%	0.32%	0.92%	0.64%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-02	Sep-01	Sep-01	Sep-00
Unprofitable Institutions (#)	0	1	1	1	1
Percent Unprofitable	0.00%	11.11%	11.11%	10.00%	10.00%
Return on Assets (median %)	1.40	1.45	1.02	0.74	0.78
25th Percentile	0.58	0.96	0.70	0.47	0.54
Net Interest Margin (median %)	4.45%	4.45%	4.27%	4.28%	4.11%
Yield on Earning Assets (median)	5.26%	5.41%	6.39%	7.86%	8.01%
Cost of Funding Earning Assets (median)	1.11%	1.07%	1.77%	3.51%	3.69%
Provisions to Avg. Assets (median)	-0.02%	0.05%	0.06%	0.20%	0.36%
Noninterest Income to Avg. Assets (median)	0.95%	0.96%	0.95%	0.60%	0.59%
Overhead to Avg. Assets (median)	3.01%	2.66%	2.77%	3.10%	2.82%

Liquidity/Sensitivity	Sep-04	Sep-02	Sep-01	Sep-01	Sep-00
Loans to Deposits (median %)	73.23%	76.75%	76.18%	76.11%	86.72%
Loans to Assets (median %)	56.13%	59.34%	55.22%	60.42%	70.36%
Brokered Deposits (# of Institutions)	3	3	0	2	3
Bro. Deps./Assets (median for above inst.)	0.08%	0.02%	na	0.11%	0.21%
Noncore Funding to Assets (median)	27.83%	24.28%	28.42%	33.64%	32.09%
Core Funding to Assets (median)	60.52%	58.77%	56.23%	55.39%	54.37%

Bank Class	Sep-04	Sep-02	Sep-01	Sep-01	Sep-00
State Nonmember	4	5	5	7	7
National	1	1	1	1	1
State Member	1	1	1	0	0
S&L	0	0	0	1	1
Savings Bank	2	2	2	1	1
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Honolulu HI	8	32,928,573	100.00%	100.00%